**DESIGNING AND MAINTAINING GOOD POLICIES**

**FOR THE DEVELOPMENT OF THE SOUTHEAST ASIAN COUNTRIES**

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**Abstract**

The first part of this paper highlighted that there is wide diversity among all ten Southeast Asian countries. Then the discussion was followed by an assessment of the need to design and maintain good policies for the development of the Southeast Asian countries. In this section, the discussion focused on four main areas such as: (i) sound macroeconomic policies; (ii) the growth and trends in poverty of these countries; (iii) the industrial and technological development of these countries; and (iv) the need to achieve an environmentally sustainable development of these countries, particularly in regard to the preservation of Southeast Asia’s precious tropical hardwood forests.

***Keywords:*** *Southeast Asia, macroeconomic policies, poverty, industry, technology.*

**Introduction: The wide diversity of the ten Southeast Asian countries**

Designing and maintaining good policies for promoting a rapid and sustained development of the ten Southeast Asian countries may well be a key impediment for a sustainable development of the region, and may therefore affect adversely the smooth implementation of the ASEAN Economic Community (AEC) in 2015. The reason for this impediment is the wide divergence between these ten ASEAN countries in their standards of living, economic size, population size, history, culture, religion and ethnicity, political culture, and degree of political freedom. Their economic policies, including their industrial, foreign investment, and domestic competition policies, also differ from one to another. For this reason it may be quite difficult, if not impossible, to formulate a ‘one-size-fits-all’ policy for these countries. This may very well make it very difficult, although not impossible, to implement the ASEAN Economic Community as early as 2015, if not later.

 One important issue is to prevent one country from introducing a policy measure, for instance a devaluation, which may hurt other ASEAN member countries, and therefore lead to retaliatory measures which in the end hurt all the ASEAN countries.

 Despite these differences, each ASEAN member country should put high priority on pursuing sound macroeconomic policies, pro-competition policies, growth-promoting policies which also reduce absolute poverty, while avoiding as much as possible worsening income distribution. In addition, these economic policies should also aim at avoiding as much as possible environmental deterioration.

 To tackle these important issues, all ASEAN member countries should seriously negotiate with each other. They have to discuss about how to minimize the unavoidable adverse effects of these policies on the ASEAN member countries, and how to compensate other ASEAN member countries from the policies of a certain ASEAN member country.

 In regard to the degree of political freedom, Indonesia and the Philippines are arguably the most democratic countries, although Indonesia only has become democratic country since mid-1998 after the fall of the authoritarian, highly centralized New Order government of President Suharto. Recently, Myanmar is edging slowly to become a more democratic country after the present president, Thein Sein, lifted several political restrictions, including freeing Aung San Suu Kyi who had been put under house arrest since the early 1990s by the military regime. Her party, the National League for Democracy, has also been allowed to participate in the latest general elections, and has been able to win a seat for Aung San Suu Kyi in the newly elected parliament.

 On the other hand, Vietnam, Cambodia, and the Lao PDR are still ruled by authoritarian, socialist-oriented governments. Meanwhile, although both Malaysia and Singapore adhere to a capitalist system, they are still ruled by authoritarian governments with powers to sue and imprison political dissidents. In Malaysia the government has the power to sue and imprison political dissidents under its controversial Internal Security Act (ISA), while critics of the Singapore government, particularly Minister Mentor Lee Kuan Yew and current Prime Minister Lee Hsien Loong, are sued and then silenced by punitive fines for allegedly ‘slandering’ these leaders.

 Thailand is also a relatively democratic country, with governments elected by general elections. However, since the then Prime Minister, Thaksin Shinawatra, was deposed by a military coup in 2006, the country has been riven by supporters and opponents of Thaksin. A recent attempt by Prime Minister Yinluck Shinawatra, the sister of Thaksin, to introduce an amnesty bill in the Thai Parliament, which would enable former Thaksin to return to Thailand after spending a few years in exile, led recently to widespread demonstrations against this bill. Consequently, political stability in Thailand is still far off. Political freedom in Thailand is also limited by the *lese majeste* rule which imposes harsh punishments on persons insulting the revered King of Thailand.

 The political history of the ten Southeast Asian countries also differ, with Indonesia and Vietnam achieving political independence after waging a bloody war of independence against their erstwhile colonial rulers, namely the Netherlands, and respectively France. To a lesser or greater extent, their colonial past has influenced their economic policies, for instance their foreign investment (FDI) and industrial policies.

 The ten Southeast Asian countries, which have been grouped in the Association of Southeast Asian Nations (ASEAN), are quite different than the 27 ethnically and culturally more homogeneous member countries of the European Union, the North American Free Trade Area (USA, Canada, and Mexico) and the Mercosur countries of Latin America (Argentina, Brazil, Chile, Uruguay, and Paraguay). The ten Southeast Asian countries also differ greatly in terms of their factor endowments, with Brunei Darussalam, Indonesia, Malaysia, and Myanmar being resource-rich countries, while Malaysia and Singapore are labour-scarce countries, and therefore dependent on guest workers from other Southeast Asian countries. Moreover, as a city state Singapore is also a land-scarce country.

 These countries also differ greatly in their economic and social indicators as reflected by several macroeconomic indicators, including their rate of economic growth and their standards of living, as indicated by their GDP per capita. They also differ in terms of their merchandise trade, as reflected by the composition of their exports and imports. In terms of their openness to foreign direct investment, their physical infrastructure, and the relative importance of their agricultural and manufacturing sectors, they also greatly vary from one another. They also diverge in terms of their social indicators, such as the percentage of their population under the poverty line, their Gini ratios reflecting the inequality in their distribution of income, their daily per capita calorie and protein supplies, and their maternal and infant mortality rates.

 These countries also have great differences in their population size. For instance, according to the ASEAN Statistical Yearbook of 2010, published by The ASEAN Secretariat in 2011, Indonesia had the largest population in 2009, numbering more than 231 million, while Brunei Darussalam had the smallest population, numbering only 406,000 (ASEAN Secretariat, 2011, table I.1, p. 2). These large differences obviously will affect the policies to be pursued by the various ASEAN member countries.

 Their rates of population growth also differ, with Singapore having the highest average annual rate of 3.5 per cent during the period of 2005--2010, and Myanmar and Thailand both having the lowest rate of 0.7 per cent (ASEAN Secretariat, 2011). Singapore’s high population growth rate is likely caused by the high in-migration of low-skill workers from neighboring, low income countries, such as Bangladesh and Myanmar, to work on construction works, and of high skill workers, for instance from the US, the UK, Australia, New Zealand, and China, to work on high skill-intensive industries, such as in Singapore’s highly acclaimed three universities, including the National University of Singapore (NUS), the Nanyang Technological University, the Singapore Management University, and its national Biochemistry Project.

**The need for designing and maintaining good economic policies**

Designing and maintaining good economic policies for the ten Southeast Asian countries should primarily aim at achieving a rapid and sustainable development combined with equity, that is, a steady reduction in the incidence of absolute poverty and in the inequalities in income distribution. A sustainable development also means that the Southeast Asian countries should use their depletable natural resources very efficiently to slow down the depletion of their natural resources. These countries should also take very good care of their renewable resources so as to prevent their depletion irretrievably which would disadvantage future generations.

 **Sound macroeconomic policies**

Good economic policies for the ASEAN countries first and foremost require sound macroeconomic policies, as reflected particularly by their inflation rates, their government budget deficits, and their fiscal sustainability, as reflected by their government debt to GDP ratios, and their current account deficits as a percentage of their GDP. We now first look at the available inflation rates of the ten ASEAN member states over the period 2008–2011 (Table 1).

**Table 1.** Inflation rates (consumer prices), annual %, 2008–2011.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **2008** | **2009** | **2010** | **2011** |
| Brunei Darussalam |  2.1 |  1.0 |  0.4 |  2.0 |
| Cambodia | 25.0  |  -0.7 |  4.0 |  5.5 |
| Indonesia |  9.8 |  4.8 |  5.1 |  5.4 |
| Lao PDR |  7.6 |  0.0 |  6.0 |  7.6 |
| Malaysia |  5.4 |  0.6 |  1.7 |  3.2 |
| Myanmar |  26.8 |  1.5 |  7.7 |  5.0 |
| Philippines |  8.3 |  4.1 |  3.9 |  4.8 |
| Singapore |  6.5 |  0.8 |  2.8 |  5.3 |
| Thailand |  5.4 |  -0.9 |  3.3 |  3.8 |
| Vietnam | 23.1 |  7.1 |  8.9 | 18.7 |

*Source: World Bank (2012b).*

 The data in Table 1 show that Brunei Darussalam, Malaysia, Thailand, and Singapore in general had the lowest and most stable inflation rates, although by the end of the decade the inflation rates of these three countries rose slightly, likely due to the adverse effect of the Global Financial Crisis (GFC), as these countries tried to reduce these adverse effect by looser monetary policies. Except for the rather high but still single digit inflation rate in 2008 in Indonesia, also likely by reason of the GFC, Indonesia’s inflation since 2009 has been quite low down to Bank Indonesia (Indonesian Central Bank)’s prudent monetary policy. These figures indicate that in comparison with other Southeast Asian countries, these four Southeast Asian countries have in general pursued sound macroeconomic policies, including prudent monetary and fiscal policies.

 On the other hand, the inflation rates of the other Southeast Asian countries have been more uneven, particularly those of Cambodia, Lao PDR, Myanmar, and Vietnam. To attract more direct investment by their domestic investors and also foreign investors, these four countries would need to lower and stabilise their inflation rates.

 Aside from the fact that high or uneven inflation rates adversely affect the lower income group and fixed income earners, such as public servants, pensioners, and the military and the police, relatively stable inflation rates are essential to encourage domestic and foreign private firms to undertake the long-term capital investments necessary for rapid and sustained growth (Thee, 1998, p. 118). As high budget deficits may tempt some countries to engage in deficit-financing which would lead to high inflation, it might be useful to look at the budget deficits of the Southeast Asian countries (Table 2).

**Table 2.** Budget deficits of the Southeast Asian Countries as a percentage of

their GDP, 2008–2011.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **2008** | **2009** | **2010** | **2011** |
| Brunei Darussalam |  - |  - |  - |  - |
| Cambodia |  -0.3  |  -2.3 |  -3.7 |  -4.2 |
| Indonesia |  -0.3 |  -1.7 |  -0.6  |  -1.1 |
| Lao PDR |  -2.2  |  -1.7 |  -0.8  |  -0.9 |
| Malaysia |  -4.4 |  -6.1 |  -5.2 |  -4.8 |
| Myanmar |  - |  - |  - |  - |
| Philippines |  -1.2 |  -3.8 |  -3.5 |  -1.8 |
| Thailand |  0.5 |  -3.0 |  -0.6 |  -1.2 |
| Vietnam |  - |  - |  - |  - |

*Source: World Bank (2012b).*

The data in Table 2 show that in general the budget deficits of the ten Southeast Asian countries are not extremely high as none of these countries have budget deficits exceeding 10 per cent of their GDP, unlike some developed countries in Southern Europe, Japan or the US. Sound macroeconomic policies are also reflected by a steady decline in the fiscal sustainability of the government, that is, a steady decline in the public debt to GDP ratio (Table 3).

**Table 3.** Fiscal sustainability of the ASEAN countries, 2008--2011.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **2008** | **2009** | **2010** | **2011** |
| Brunei Darussalam |  -  |  - |  - |  -  |
| Cambodia |  - |  - |  - |  - |
| Indonesia |  33.1 |  28.4 |  26.1 |  26.2 |
| Lao PDR |  - |  - |  -  |  - |
| Malaysia |  39.8 |  50.8 |  51.1  |  51.8 |
| Myanmar |  |  |  |  |
| Philippines |  -  |  - |  - |  - |
| Singapore | 105.1 |  120.7 | 107.0  | 112.7 |
| Thailand |  24.1 |  28.6 |  28.8 |  30.2 |
| Vietnam |  - |  - |  - |  - |

*Source: World Bank (2012b).*

 The available data in Table 3 show that in terms of fiscal sustainability, Indonesia shows the best performance. This is due to the fact that after the Asian Financial Crisis, the Indonesian government has put a steady reduction in government debt to more sustainable levels as a central focus of its economic policy (World Bank, 2001). Although Thailand was also one of the worst-affected countries during the Asian Financial Crisis, it appears that the Thai government did not put fiscal sustainability as the central focus of its economic policy.

**Table 4.** GDP growth rates of the 10 ASEAN member countries, 2008–2011.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **2008** | **2009** | **2010** | **2011** |
| Brunei Darussalam |  -1.9 |  -1.8 |  2.6 |  2.2 |
| Cambodia |  6.7 |  0.1 |  6.0 |  7.1 |
| Indonesia |  6.0 |  4.6 |  6.2 |  6.5 |
| Lao PDR |  7.8 |  7.5 |  8.5 |  8.0 |
| Malaysia |  4.8 |  -1.5 |  7.2 |  5.1 |
| Myanmar |  - |  - |  - |  - |
| Philippines  |  4.2 |  1.1 |  2.6 |  3.9 |
| Singapore |  1.7 |  -1.0 | 14.8 |  4.9 |
| Thailand |  2.5 |  -2.3 |  7.8 |  0.1 |
| Vietnam |  6.3 |  5.3 |  6.8 |  5.9 |

*Source: World Bank (2012b).*

 We will now see how the economies of the ten ASEAN member countries have performed during the past four years. The data show that in general Indonesia, Lao PDR, and Vietnam during the past four years recorded the most stable growth, while growth in the other Southeast Asian countries was quite erratic.

**Trends in absolute poverty**

As rapid economic growth is a necessary, although not necessarily a sufficient condition for poverty eradication, it will be important to look at the poverty rates of the ASEAN member countries over the past four years (Table 5).

**Table 5.** Poverty head count ratios at the national poverty line

(% of the population), 2008–2011.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **2008** | **2009** | **2010** | **2011** |
| Brunei Darussalam |  - |  - |  - |  - |
| Cambodia |  - |  - |  - |  - |
| Indonesia |  15.4 |  14.2 |  13.3 |  12.3 |
| Lao PDR |  - |  - |  - |  - |
| Malaysia |  - |  3.9 |  - |  -  |
| Myanmar |  - |  - |  - |  - |
| Philippines |  - |  26.5 |  - |  - |
| Singapore |  - |  - |  - |  - |
| Thailand |  205 |  19.1 |  16.9 |  13.2 |
| Vietnam |  - |  - |  - |  - |

*Source: World Bank (2012b).*

 Unfortunately, the above table is not complete, as there are no data at all of five out of the ten ASEAN member countries, while Malaysia and the Philippines only provide a figure for one year. Hence, we can only compare the trend in poverty reduction in Indonesia and Thailand for the past four years. Moreover, the figures of these two countries cannot be compared, as they are based on their own poverty line. However, the data of these two countries show a steady decline in their poverty rates, although only in the case of Indonesia is the decline in the poverty rate associated with a relatively high growth rate.

**Industrial and technological development**

Aside from sound macroeconomic policies, the industrially more developed Southeast Asian countries, including Indonesia, Malaysia, the Philippines and Thailand, also have to take additional steps to upgrade the technological capabilities of their firms, particularly their manufacturing firms. Fostering a dynamic manufacturing sector is fundamental to the necessary structural transformation of Indonesia (World Bank, Jakarta, 2012a, p. 1). This is important, since the manufacturing sector is an important source of quality jobs in its own right, a major source of their merchandise exports, and as a catalyst for the development of the services sector. Therefore, putting in place the building blocks of a competitive manufacturing sector, including good physical infrastructure, good logistics, an educated workforce, and a sound legal system, in these Southeast Asian countries is also important,. These building blocks can provide the basis for further higher value added activities that rely on similar support systems. (World Bank, 2012a, p 1).

 On the other hand, the industrially less developed Southeast Asian countries, particularly Cambodia, Lao PDR, Myanmar, and Vietnam can for the time being still rely on their low skill and labour intensive industries as a source of their merchandise exports, besides their primary exports. Brunei Darussalam, however, only relies on its oil and gas exports, and is far too small to develop an internationally competitive manufacturing, although it realizes that it has to diversify its export base. Singapore, on the other hand, is currently not only an advanced industrial country, but primarily an advanced service economy, where the services sector in 2011 generated 73 per cent of its GDP (World Bank, 2012b).

 The question coming up right now is around what the industrially more advanced Southeast Asian countries, including Indonesia, Malaysia, the Philippines, and Thailand could or should do, as they cannot continue to rely on their cheap labour or their abundant natural resources or just on keeping their exchange rates at a competitive level to sustain their manufactured exports.

 Instead, these late industrializing countries, could, like South Korea and Taiwan, develop their technological capabilities or technological mastery, that is, the effective use of technological knowledge through continuing technological effort to acquire, assimilate, adapt, and develop new technology, both process and the more demanding product technology (Dahlman and Westphal, 1982, pp. 105–106). In other words, the manufacturing firms in the late industrialising countries of Southeast Asia require ‘innovation’, that is, the processes by which these firms master and implement the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competitors––domestic or foreign (Ernst, Mytelka, and Ganiatsos, 1998, pp. 12–13).

 Most of the time, and in most industries, innovation is based on the continuous and incremental upgrading of existing technologies or on a new combination of them. On the other hand, radical innovations, involving a substantial departure from existing knowledge, requiring fundamental changes in existing organizational and behavioural patterns, are still less common (Ernst, Mytelka, and Ganiatsos, 1998, p. 13), if at all, in the industrially more developed Southeast Asian countries.

 As the Southeast Asian countries are still net technology-importing countries, these countries also face the challenge of maximizing the international transfer of the most relevant technologies on the best available terms. The technologies that are actually transferred do not only involve the purchase of capital equipment or the acquisition of blueprints but, more importantly, also the development of the capacity to use, adopt, replicate, and further expand the knowledge and skills developed elsewhere (Soesastro, 1998, p. 304).

 At their present level of industrial and technological development, the Southeast Asian countries should first focus on developing the required technological capabilities, specifically the capabilities to make use of transferred technologies (Bell *et al.* 1984, pp. 107–108). Development of these technological capabilities does not only come from experience, but to an even greater extent more from the technological efforts of these firms (Thee, 2005, p. 218).

**Achieving a sustainable development in the Southeast Asian countries**

Achieving a sustainable development in the ASEAN countries, specifically in preserving its renewable natural resources, including its precious tropical hardwood forests, while prudently exploiting its depletable resources to enable future generations to benefit from the exploitation of these resources without irretrievably damaging its natural environment, is crucial.

 As we have learned, there are three major areas in the world where tropical hardwood forests are found, namely West Africa, Latin America, particularly in Brazil, and Southeast Asia, specifically in the Philippines, Malaysia, and Indonesia. However, West Africa’s tropical hardwood forests, especially those in Ghana and Nigeria, have been exhausted during the early 1970s due to their runaway exploitation (Takeuchi, 1974, pp. 31–33), whereas Latin America’s tropical hardwood forests are more difficult and less economical to exploit and export, due to the extremely mixed species composition of their tropical hardwood, coupled with the relatively small average size of logs, which gave rise to formidable problems of market acceptance and utilization. Moreover, their extremely remote and inaccessible location of the volume-rich forests has contributed to the relatively high costs of exploitation in this region (Takeuchi, 1974, p. 34.). Given such facts, it is Southeast Asia forests which are more exploitable in terms of hardwood.

 The most important countries in Southeast Asia where tropical hardwood forests are found are the Philippines, Malaysia, and Indonesia. In these three countries the exploitation and exports of logs were more profitable than in Latin America, as these forests are located in relatively more accessible areas, comparatively rich in per-hectare volume, and relatively uniform in species mixture which has commanded an increasing economic rent over time (Takeuchi, 1974, p. 7).

 However, due to the rapid deforestation, the commercial exploitation of these forests in the Southeast Asian countries, particularly in Indonesia, has declined from close to 70 per cent of Indonesia’s land area in 1990 to only a little bit more than 50 per cent of its land area. (OECD, 2012, p. 6). As a result, air pollution in Indonesia, in terms of PM 10 (microgramme/m3) in 2010 was one of the highest in the world, and only exceeded by China and India (OECD, 2012, p. 6). It therefore adversely affects the health of the Indonesian population, not only particularly in Sumatra and Kalimantan, but also in Malaysia and Singapore, and to a lesser extent in the southern part of Thailand.

**Concluding remarks**

In the above pages the wide diversity of the ten Southeast Asian countries were first discussed, followed by a discussion of the need to design and maintain good policies for the development of the Southeast Asian countries. This part included a discussion of the need for sound macroeconomic policies; the growth and trends in poverty of these countries; the industrial and technological development of these countries; and the need to achieve an environmentally sustainable development of these countries, particularly in regard to the preservation of Southeast Asia’s precious tropical hardwood forests.

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